



Latin America and the Caribbean Flagging development

At first glance, Latin America's progress toward transformation appears generally favorable from 2009 to 2011. Upon closer examination, however, the apparent stability in many areas is revealed as stagnation. Moreover, a number of fundamental problems remain unresolved.

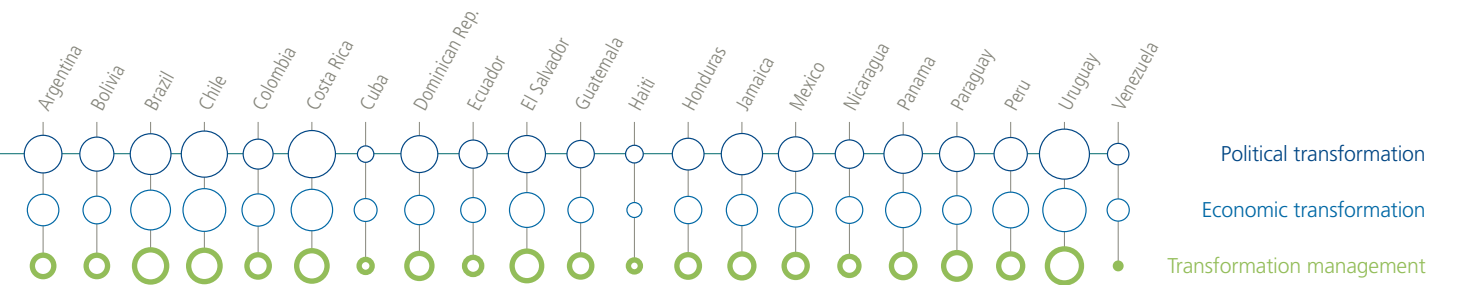
Latin America and the Caribbean remained relatively unscathed by the global economic crisis of 2009. On the whole, the region successfully withstood the challenges posed by the crisis that gripped industrialized nations, maintaining a comparatively stable development trajectory. Most governments in the region responded to the crisis by deploying with flexibility a range of political and economic measures. By 2010, the region was again experiencing significant economic growth. Notwithstanding the vulnerability of the weaker states located primarily in Central America and the Caribbean, most states in the region also enjoy a comparatively well-established regulatory framework, which provides economic actors with a relatively stable operational framework. It ap-

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Political structures within the region were also largely unaffected by the crisis, maintaining their existing trajectory of development. States such as Colombia and Brazil continued to pursue a moderate course, while states such as Venezuela, Ecuador and Bolivia continued on a more radical path. The BTI 2012 data confirm that Latin America and the Caribbean remain firmly in the democratic camp. However, political transformation appears to be stagnating, with an average democracy score now at 6.83 – 0.14 points less than in 2010. A similar trend can be seen in economic transformation, with an average score now at 6.27 points, nearly unchanged from the 2010 results (6.35 points).

Moreover, the slight overall decline in scores for the region is almost entirely attributable to those states that have posted the greatest losses in the Transformation Index, namely Haiti, which suffered a severe earthquake in 2010, and Cuba, whose welfare regime is under considerable duress.

Similarly, the average transformation management score is largely unchanged, at 5.49 points. However, this apparent stability conceals comparatively wide disparities of development, ranging from countries that exhibit successful management performance, to countries where management performance has undergone ups and downs during the survey period, to countries such as Venezuela, which is neither promoting a market economy nor a democratic rule of law.



The Latin American and Caribbean region continues to occupy second place in the BTI, behind East-Central and Southeast Europe. On regional average, steering capability and resource efficiency improved slightly while the willingness to cooperate internationally decreased.

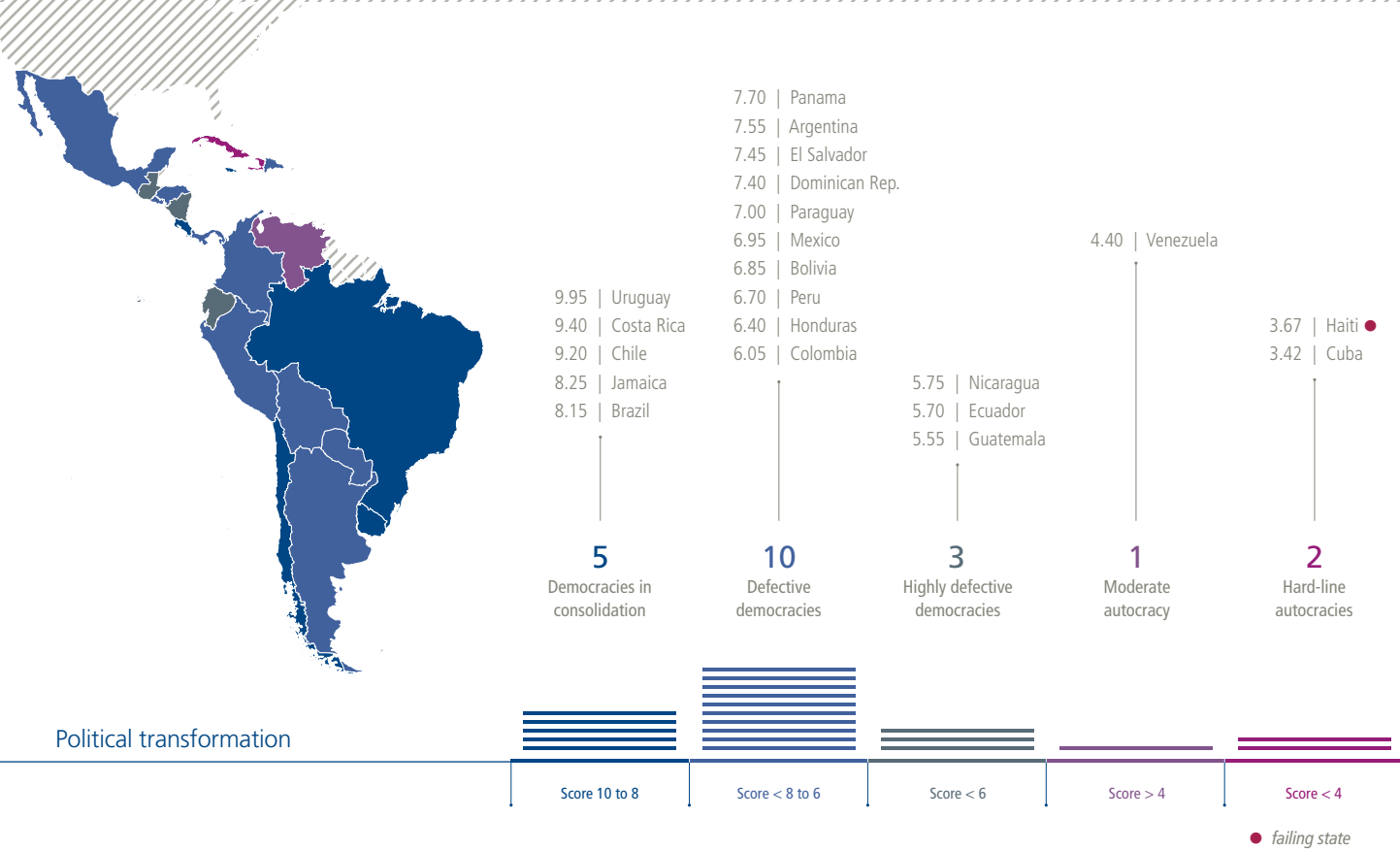
This generally positive overall assessment, however, conceals a cluster of four fundamental, ongoing problems of development. First among these is the persistent issue of social inequality, which remains a matter of indifference to the majority of the region's elites. As a result, political discontent is on the rise, and the region has witnessed several populist experiments. Second, the region's elites have failed to implement targeted structural policies that would

build upon the successful growth achieved by the raw materials boom. Although it remains an economic model of the region, Chile's indecisive management strategy has contributed to its comparative stagnation. Thus, while Chile was the top performer among surveyed states in the BTI 2008, it has since fallen to fifth place in the overall management ranking, and is now surpassed by Brazil within the Latin American group. Third, in nearly all states in the region, the promotion of constitutional rule is stagnating, which has tended to promote the rise of informal arrangements and further exacerbated existing imbalances of political and economic power. Finally, the problem of organized crime continues to escalate with no sign of abatement. Although Mexico and

Guatemala are the two states that most exemplify the erosion of the state monopoly on the use of force, the same trend characterizes the majority of Latin American states, and continues to erode what is already a fragile social structure within the region.

The example of Honduras, where President Manuel Zelaya was removed in a 2009 coup, points to the most extreme outcome of such inherent instability. On the other end of the scale, Uruguay, Costa Rica and Chile are consolidating democracies where democracy is substantively strong and is underscored by considerable support.





Political transformation

Instability as risk

As in previous surveys, the region is clearly democratic, although the results demonstrate a slight decline in the qualitative state of democracy. The majority of states in the region fall within the larger category of defective democracies, for which the fragile quality of stateness continues to pose the greatest threat.

Political developments within the region continue to vary widely, ranging from the consolidation of democracy in Uruguay, the coup in Honduras, the entrenchment of autocracy in Venezuela and the collapse of Haiti. Overall, BTI survey data indicate a slight reversal in progress toward democratic development, with the average score declining from 7.02 points (BTI 2008) to 6.83 points during this survey period. The majority of countries in the region continue to be classified as defective or highly defective democracies.

The region's development is defined by four key factors: a high level of social inequality; the weakness of the rule of law; fluctuations in the quality of the party system; and, above all, an increasingly fragile

stateness, which in some countries has also come under mounting pressure from organized crime.

During the survey period, two states have moved between categories. A slight increase in scores has brought Colombia, with an average score of 6.05 points, into the group of defective democracies. After the earthquake and the fraudulent elections of 2010, Haiti is now classified as an autocracy and a "failing state." This decline for Haiti also reflects the fact that the 2010 elections played a decisive role in the BTI 2012 survey results. While Michel Martelly did, ultimately, win a clear majority of the presidential vote in March 2011, this reasonably free and fair runoff election took place after the end of the survey period. Haiti's current classification as

a failing state reflects the state's inability to assure its monopoly on the use of force, as well as the total collapse of its administrative structures.

Six additional states have undergone significant changes since the BTI's 2010 edition. Among these states, Bolivia, where the political elites averted a national split, is the only one to register an improvement (+0.35 points). By contrast, the quality of democracy has declined in Argentina (-0.35), Guatemala (-0.30), Mexico (-0.30), Ecuador (-0.20) and Panama (-0.20). Although these states vary widely in their quality of democracy and in the reasons for their current decline, two general patterns characteristic of the region can be observed. First, in Argentina, Ecuador and Panama, the decline in the quality



Population: 108.5 mn
Life expectancy: 75 years
Human Development Index rank (out of 187): 57
GDP p.c. PPP: \$ 14,566

Mexico, a failing state?

The apparent inability of the Mexican state to assert control over the drug cartels and the rising scourge of violence – which claimed the lives of over 34,000 persons between 2007 and 2010 – has raised concerns that Mexico may be headed toward a comprehensive collapse in the direction of a failing state.

Within the BTI, states are classified as failing states when they fail to attain a specified minimum score in two key questions under the criteria of stateness, namely, the state's monopoly on the use of force and the existence of basic administrative structures. For both criteria, Mexico's scores are currently well above this minimum. The state's basic infrastructure extends throughout nearly the entire country, as demonstrated by

Mexico's relatively high scores across several survey periods. However, the Mexican state's monopoly on the use of force has come under increasing challenge, particularly in the border regions as well as in the states of Guerrero and Michoacán. Consequently, Mexico has witnessed a continuous decline in

scores over recent years (BTI 2006 and 2008: 7 points; BTI 2010: 6 points; BTI 2012: 5 points.) To date, however, Mexico does not meet the criteria for a failed state.

Nevertheless, this conflict between the state and drug cartels is negatively impacting not only stateness, but also political freedom and the rule of law. As a result, Mexico's scores for democratic development have continued to decline in recent years, from 7.55 (BTI 2006) to 7.45 (BTI 2008) and 7.25 (BTI 2010) and, finally, to 6.95 points over the course of the current survey period.

of democracy is largely due to the respective ruling presidents' overweening pursuit of power and the resultant undermining of democratic institutions. By contrast, Guatemala and Mexico are suffering from deficiencies in stateness, which is linked to the extreme violence of the drug cartels and organized crime. In both cases, the process of state disintegration threatens to undo the gains in democratization achieved during the previous decade.

The autocracies of the region now include Haiti as well as the "electoral autocracy" of Venezuela, which – although it enjoys what continues to be reasonably free and fair elections – is under de facto authoritarian rule. This category also includes Cuba, the last "classical" autocracy on the American continent. At the start of the survey period, the regime under the leadership of Raúl Castro attempted to undertake stabilizing measures to strengthen consensus among the Communist elites and to shore up Cuba's authoritarian system in the face of increasing challenges. By late 2010, signs of fundamental transformation were underway, although the economic reforms are modeled primarily on the examples of states such as China and Vietnam.

A total of 16 relatively free and fair elections took place in the region during the survey period. With the exception of Honduras, the election outcomes were generally accepted and deemed credible. In this sense, the primary threat to the region is no longer found in the reversion to political force as a means of quelling domestic conflict. Rather, most of the region's defective democracies have coa-

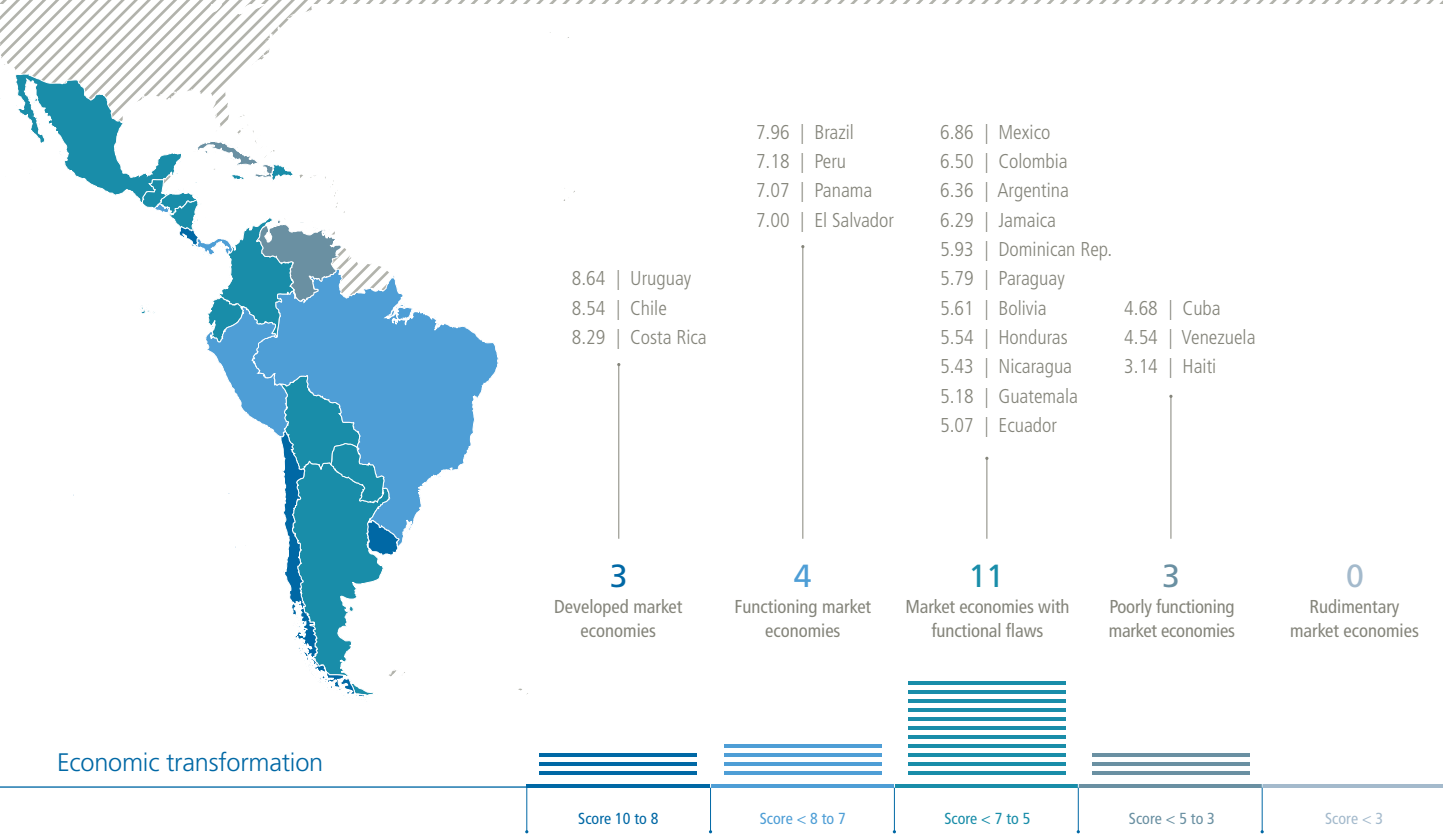
lesced at a "low-level equilibrium" marked by a weakness within formal institutions, an inclination to focus on short-term strategies and measures, and a tendency to frame politics as a zero-sum conflict among competing interests. The most notable attempts to seek a way out of this dilemma – through reforms such as those enacted by Chávez in Venezuela, Morales in Bolivia, Correa in Ecuador, Zelaya in Honduras and Ortega in Nicaragua – all resulted in further weakening of political institutions and the rule of law.

Similar findings also apply to Argentina, where democratic advances commensurate with the state's socioeconomic development were hindered by the conflicts between the different factions of the political elite. Since 2003, the Peronist governments under Néstor Kirchner and Cristina Fernández de Kirchner have continued to promote this growing informalization of politics.

Particularly in Central America and in Mexico, democracy is threatened by a corrupt state apparatus, as well as by the potent combination of poverty, social inequality and criminality. The threatened destabilization of the system of public patronage, which has long upheld a comprehensive system of clientelism, has resulted in what might be called an increased feudalization of the state. At the same time, the federalistic structures of the Mexican state have promoted the development of a "parallel world" that now competes with the apparatus of state.

Political transformation Mexico





Economic transformation

The limitations of growth

As compared to earlier crises, Latin America weathered the crisis of 2009 remarkably well. At the same time, the region also achieved a new level of stability in terms of economic policy. Social inequality, however, remains an ongoing burden.

When measured solely on the basis of economic activity, Latin America appears to be enjoying solid economic growth. While the region's GDP did, in fact, dip to 1.9 percent in 2009, Latin America recovered quickly from the crisis. Just one year later, the region had rebounded to an average growth rate of 6.0 percent. This growth rate was achieved despite the lagging performance of Haiti, Venezuela and Jamaica and the comparatively poor performance of Central America (3.5%) and the Caribbean (0.3%), whose economies are more closely linked with that of the United States.

Over the past years, a new "culture of stability" also appears to have taken root in Latin America. Certainly, the moderate rates of inflation of recent years and the

relatively sound national budgets within the region represent an important turnaround following the debt crises and the "lost decade" of the 1980s. However, the status of economic development as measured by BTI regional average scores remained virtually unchanged between 2006 and 2012 – an indication that the region's structural problems are increasingly hindering economic growth. The region's entrenched social inequality is evident in taxation and social policies, as well. Furthermore, the ongoing raw materials boom has tended to undermine the effort to found economic development on increases in productivity and the creation of added value. Within the region, only Brazil, which enjoys robust domestic demand as well as relatively advanced research and

development policies, has been able to hold its own with Asian economies. Moreover, in some states, development toward a market economy has been impeded by a combination of weakness in the rule of law, corruption and an informal sector that has been thoroughly penetrated by organized crime. Despite the many negative examples, state interventionism continues to present an appealing populist alternative. This is evident not only in Venezuela, but also in some of the region's defective democracies, such as Argentina, Bolivia, Ecuador and Peru.

Within the survey period, the greatest declines in economic transformation were registered in Haiti (–0.75 points) and Cuba (–0.57 points). Market economic development also regressed in Jamaica (–0.36) and

Argentina (–0.25). By contrast, in Honduras, the Lobo government reversed the left-populist economic policies of President Zelaya and, in so doing, achieved an improvement of 0.32 points to regain its 2008 score. Further, both Peru and El Salvador, where the Funes government has pushed for more pronounced welfare-state measures, have advanced to the category of "functioning" market economies.

However, only three states in the region attained the status of "developed" market economies within this BTI survey period. One of these states is Uruguay, which continued along its positive development trajectory, surpassing Chile as the top performer in Latin America. Uruguay's success is due in part to the country's favorable overall economic framework. In addition, the moderate-left governments of President Tabaré Vázquez and his successor, José Mujica, have strengthened the country's economic and social-welfare institutions and promot-

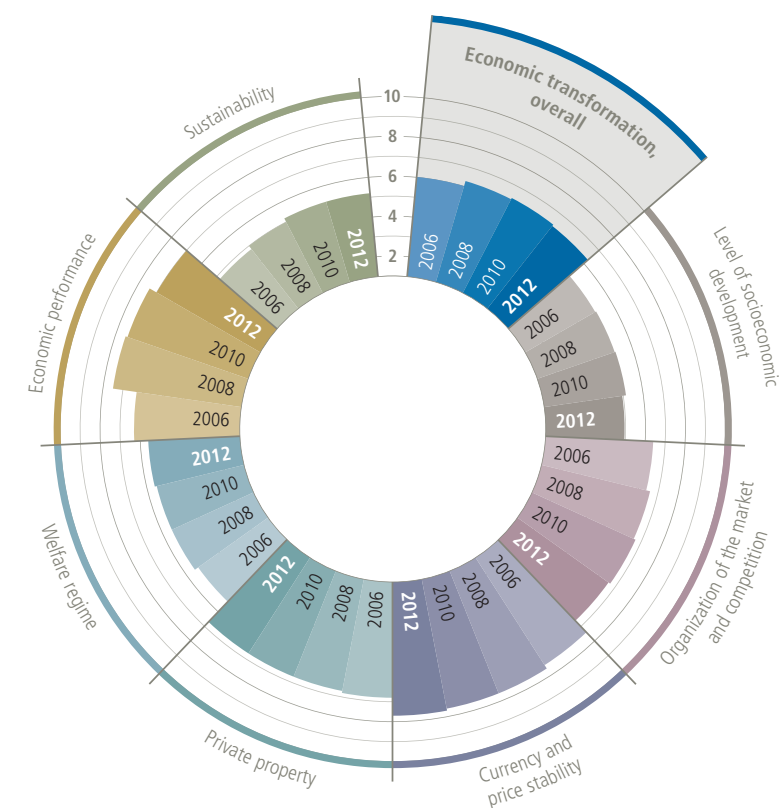
ed sustainability. Although Chile and Costa Rica are similarly robust on an institutional level, neither was able to realize further gains during this survey period.

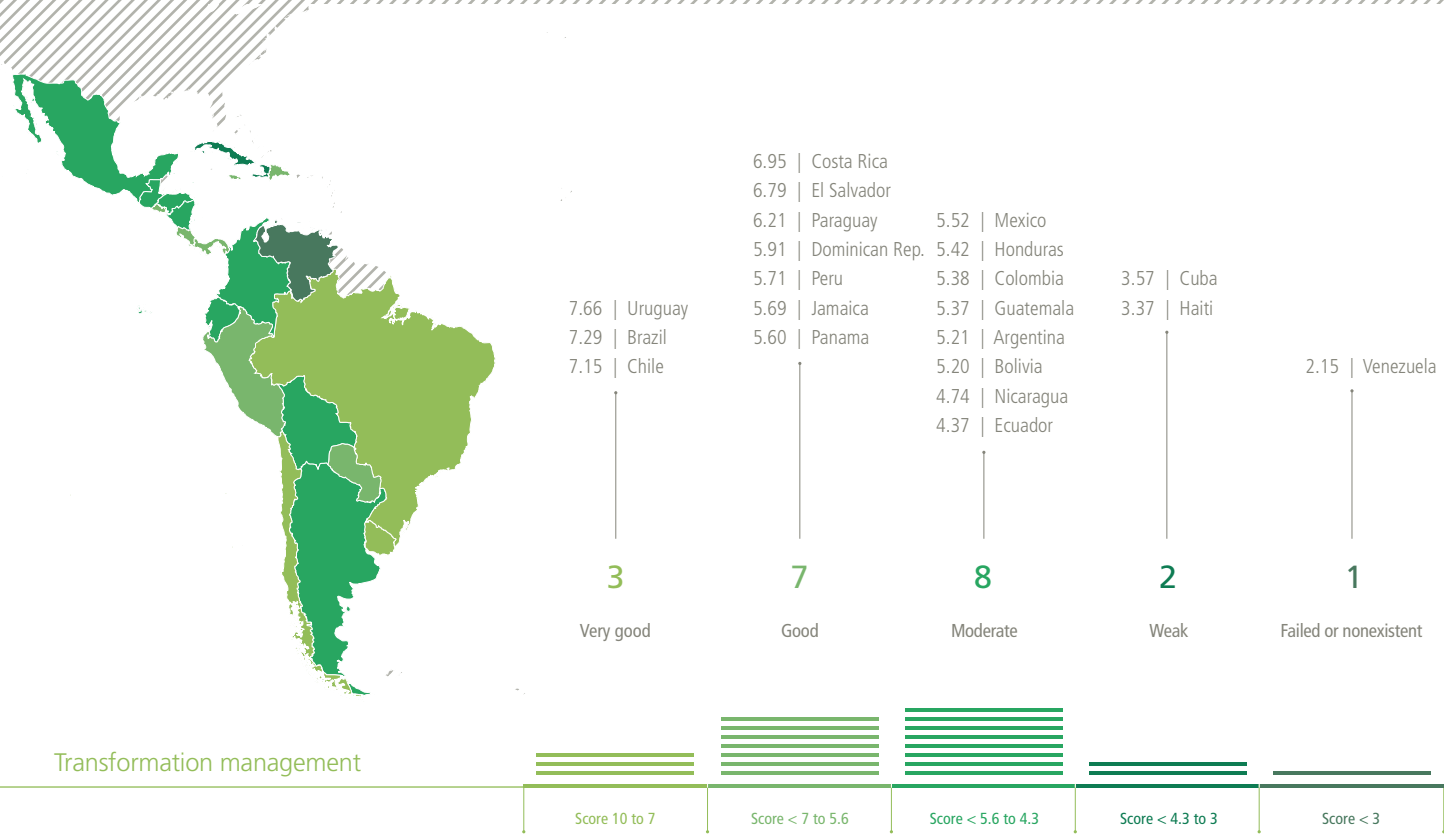
Brazil is now approaching the ranks of developed market economies. In addition to a strong domestic market, Brazil has a stable economic order and has, through targeted social policies, achieved some success toward overcoming social inequality. The largest group of Latin American states in the survey is comprised of market economies with some functional flaws. Within this group, however, the stronger market economies of Argentina, Colombia, Jamaica and Mexico suffered a decline in the functional operability of their market economies during the survey period.

In Venezuela, which is the poorest performer in the region (excepting the special case of Haiti), the continuation of state-centered economic policies put in place by the Chávez government has placed further

pressure on the private economic sector. Venezuela is also the only country to experience negative growth rates in 2009 and 2010. Since 1958, no Venezuelan government has succeeded in taking full economic advantage of the state's substantial oil production profits, and the current administration is no exception. In Cuba, the global economic crisis was the last straw for an already overburdened social system. While the regime of Raúl Castro is enacting reforms intended to move the state in the direction of "market socialism" like in China and Vietnam, these reforms are still in the early stages of implementation.

State of economic transformation 2006–2012, overall and by criterion





Stagnating reform

Although Latin America's management scores have increased steadily since 2006, this trend has now markedly slowed. However, the range here is broad, extending from success stories such as Uruguay to the example of Venezuela, which continues to resist transformation.

Although the overall average score remains nearly unchanged, transformation management scores for individual countries have undergone substantial change in the BTI 2012. Significant improvements were registered in Bolivia (+0.50 points), El Salvador (+0.49), Honduras (+0.41), Costa Rica (+0.32) and Paraguay (+0.24), with Paraguay achieving an improvement of 1.26 over the past six years. By contrast, Argentina continues on its downward course (-0.30 points). Haiti (-1.38) and Mexico (-0.36) also both registered declines.

Chile has also lost ground in transformation management. This decline is not related to the changeover in power from the Concertación to the right-trending Coalición por el Cambio but, rather, is the result of

weaknesses among the state's political elites as a whole. Nonetheless, Chile's score of 7.15 is evidence of solid transformation management. The same is true for Brazil (7.29) and for the new regional leader, Uruguay (7.66). All three of these states achieved high scores on each of the four management criteria and attained the highest possible score on the criterion of "international cooperation." Although all four states share a common weakness in resource efficiency, the governments of Tabaré Vázquez and José Mujica of Uruguay achieved notable improvement in this sphere.

The only states that currently appear poised to advance to the next-higher transformation management group are Costa Rica (6.95 points) and El Salvador (6.79).

In El Salvador, the moderate leftist Funes government succeeded in obtaining a high degree of consensus on behalf of his social policies, which aimed at cushioning the effects of free-market regulatory policies. The Funes government also has successfully increased the integration of civil society. Meanwhile, in Costa Rica, first the governments of President Arias and, after 2010, of President Chinchilla have continued to battle corruption while at the same time expanding international cooperation through implementation of a free-trade agreement between Central American states and the United States. The remaining states in this second tier exhibit much greater weaknesses in transformation management, particularly with respect to resource efficiency and

consensus-building. Apart from Paraguay, this group of states has seen little progress in transformation management during the survey period.

Eight states have attained "moderate" management performance in the BTI 2012. They are all still grappling with the effects of crisis and turbulence, and some of the states continue to experience high levels of political conflict. This group includes Ecuador and Bolivia – two of the states in which the government is enacting policies that, at least in part, are incompatible with market economic principles.

Rather remarkably, Bolivia has nonetheless achieved a significant improvement in management performance. The reasons for this improvement are twofold. First, the political leadership underwent a significant learning process. Second, in the wake of its overwhelming electoral success in 2009 and subsequent adoption of the constitution, the Morales government has pursued a decidedly less-polarizing political strategy. As yet, Ecuador has not undergone any such learning process; rather, President Correa continues to struggle to consolidate his development strategy. Confronted by a vehement and obstructionist opposition, Correa has turned to strategies similar to those once employed by Morales in Bolivia.

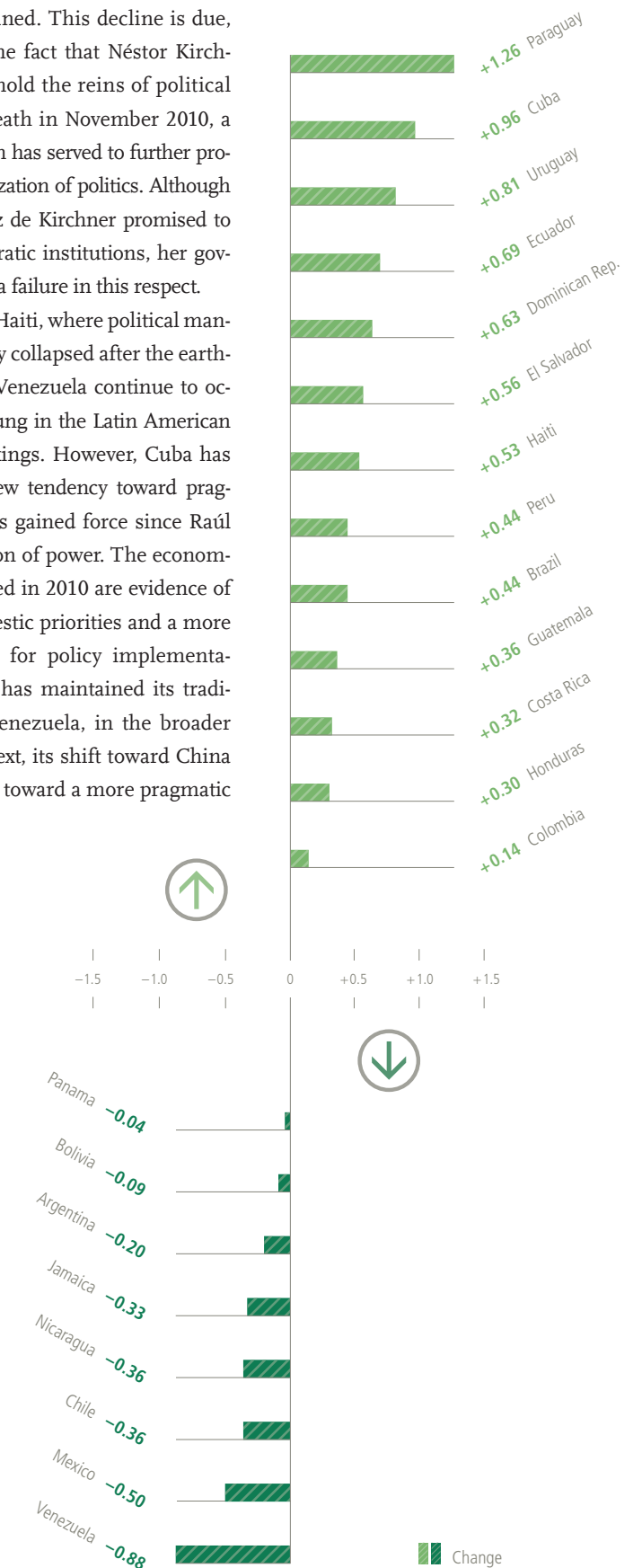
Honduras has also achieved a notable improvement of 0.39 points during the current survey period – again, that is entirely due to the efforts of President Lobo, who took office in 2010 after a period of escalating polarization under President Zelaya, a political coup and a controversial transitional government under the leadership of Roberto Micheletti. Despite these challenges, Lobo has largely succeeded in restoring some measure of calm to Honduran politics.

By contrast, Mexico remains in a state of turmoil, and President Calderón's attempt to curb the escalating violence of drug cartels by deploying the military has proven a failure. This political failure is linked to Mexico's inability to exert control over anti-democratic actors, and has further damaged Mexico's credibility within the international community. In Argentina, transformation

management improved substantially under the government of Néstor Kirchner. Under the government of his wife, Cristina Fernández de Kirchner, however, steering capability performance declined. This decline is due, paradoxically, to the fact that Néstor Kirchner continued to hold the reins of political power until his death in November 2010, a circumstance which has served to further promote the informalization of politics. Although Cristina Fernández de Kirchner promised to strengthen democratic institutions, her government has been a failure in this respect.

In addition to Haiti, where political management effectively collapsed after the earthquake, Cuba and Venezuela continue to occupy the bottom rung in the Latin American management rankings. However, Cuba has demonstrated a new tendency toward pragmatism, which has gained force since Raúl Castro's assumption of power. The economic reforms launched in 2010 are evidence of a clear set of domestic priorities and a more stringent strategy for policy implementation. While Cuba has maintained its traditional ties with Venezuela, in the broader international context, its shift toward China also signals a shift toward a more pragmatic approach.

Transformation management, over time 2006 vis-à-vis 2012





The Achilles heel – the rule of law

Uruguay, Chile, Costa Rica and Brazil continue on their successful course of transformation. In many states within the region, though, the process of change has stalled. In addition to the fragility of stateness, the greatest challenge was and continues to be deficits in the rule of law.

As in past survey periods, Latin America's transformation performance record in the BTI 2012 remains mixed. At the same time, though, it is worth acknowledging that the region appears to have largely proved successful in turning its back on autocracy in the past 20 years. Moreover, the majority of states in the region have abandoned the problematic economic and social policies of the 20th century that resulted in crises of inflation and debt and, instead, are striving to achieve stable market economies.

This is particularly the case for Uruguay, Chile and Costa Rica. However, even the comparatively stable market economy of Uruguay remains vulnerable over the mid-term. As a small economy dependent on its neighbors, Brazil and Argentina, Uruguay's fate tends to rise and fall in step with economic fortunes abroad. Moreover, increased dollarization has also made Uruguay more vulnerable to external crises. In the case of Brazil, an emergent economic powerhouse, the hopes for continued economic expansion rest largely on a strong domestic market. This has already helped create a new middle class – a development that has also aided in Brazil's effort to overcome massive social inequality.

Apart from these oft-cited examples, however, recent years have witnessed stagnating transformation in the region. In most states within the region, democracy and market economy rest on a relatively weak institutional foundation, and few lasting reform initiatives have been implemented. Even El Salvador and Paraguay will need to first demonstrate their sustainability before their positive transformation can truly be rated a lasting success.

Of course, we must also take into account the context of such positive transformation, which necessarily plays an important role in determining how quickly this can take place. For example, the consolidating democracies of Uruguay, Chile and Costa Rica have demonstrated that societies with well-functioning institutions can successfully propose, negotiate and implement important reforms. By contrast, the example of Latin America's defective democracies has shown that deep-seated conflicts tend to undermine trust in weak and overburdened institutions and promote the enactment of reactive and shortsighted policies. The weak rule of law in these states remains the main obstacle to further transformation. This weakness is expressed in the lack of adherence to universally applicable laws and rules in favor of an informal system of rules and the concentration of power in the hands of a few individuals. In the case of autocracies such as Venezuela, where militia loyal to the government have begun to form a parallel institutional structure alongside

the state's monopoly on the use of force, the state is actively opposed to transformation in the BTI sense. It is unlikely that the presidential elections scheduled in Venezuela for October 2012 will change this bleak picture considerably.

This is all the more the case because meaningful reforms generally require that political actors possess a basic level of mutual trust – but this trust is virtually impossible when the rule of law is not assured. This paradox is further illustrated by Argentina's repeated failure to enact reforms in the rule of law, which has been hindered by the ongoing power struggle between the government and the opposition and the efforts by both camps to orchestrate the media to their advantage. Argentina's ongoing tendency toward polarization was further exacerbated in the runup to the October 2011 elections.

Nonetheless, despite the overall stagnation of transformation management performance in the region, a few states have managed to achieve notable success. The sustainability of these successes will depend largely upon whether reforms are accompanied by a process of learning among social and political elites. In this respect, Latin America's overall success in weathering the economic turbulence of the global economic crisis might be regarded as an important indicator of advanced policy-learning and increased steering capability.

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Interview

“We haven't yet overcome our democratic crisis”

María Paula Romo on a strong president and weak democratic institutions in Ecuador

You were a member of Ecuador's Constituent Assembly and won more votes than any other candidate in the parliamentary elections. Your Ruptura movement was part of the coalition formed by President Rafael Correa but left the coalition in January 2011. Why?

Ruptura (www.ruptura25.org) broke with the PAIS movement and the government after President Correa decided to call a referendum to reform the constitution and approve changes aimed at a more authoritarian government, contrary to the ideals of deepening democracy and strengthening institutions, which was what had originally motivated us to get involved in the Assembly and subsequent political process. The defining issue was the president's plan to participate directly in the appointment of functionaries – judges, attorneys, ombudsmen, notaries – throughout the judicial system. The reform did not simply authorize a change to a state power directed by the executive; it was a reform to the constitution, enabling the president and National Assembly to interfere in the appointment of the Judiciary Council.

Ruptura is currently applying for accreditation as a political party. How much support do you have? Is the party registration procedure fair? And how does the government react?

Ruptura is currently trying to register as a National Political Movement (with the same rights and duties as a political party). Apart from our manifesto and statutes, we have to present signatures of support from about 160,000 citizens. We enjoy considerable support, but one must consider the climate of distrust in political parties and tendency to view opinions in terms of “for or against” Correa. Ruptura aims to be a modern political organization of the left with a platform reaching beyond being for or against the government of the day. This is hard for people to understand in such a polarized atmosphere. Ruptura presented 204,000 signatures of support in November 2011 and, in December 2011, the National Electoral Council rejected about 50 percent (far more than the margin of error confirmed by the four parties that registered before us). With 107,000 verified signatures, Ruptura is still in the process of registering, and we hope to do so in the first quarter of 2012.

How do you assess the current political situation in Ecuador? Where is reform most urgently needed?

The president's power considerably outweighs that of weak democratic institutions. Although the government has improved infrastructure and services, it faces questions regarding the sustainability of its investment and


spending model and, above all, major doubts about its compromising of individual liberties. Rather than seek formal reforms, the challenge we face is to organize both socially and politically in order to create a genuine counterbalance to specific initiatives and enable systems for appointing controlling bodies and jurisdictional guarantees to test the efficacy of Ecuador's current constitutional model.

According to the Ecuador BTI report, “Correa has made himself the most powerful elected President in Ecuador's history.” Nonetheless, indigenous groups managed to stop a new water law in 2010. In the same year, a group of policemen even captured him for one day, rebelling against a salary reform. His majority is slim. Just how powerful is Correa?

I agree that Correa has become a very powerful president. But these two examples remind us that Ecuador is a country in which sudden political change is possible. In exercising his power, the president has lost the support of many organized progressives and a sector of the population that values liberties and democratic balance. Certain abuses of authority (such as lawsuits against journalists and the opposition) have also undermined his image at home and abroad. So I would agree that Rafael Correa is a powerful president presiding over weak state institutions and a political organization that depends almost entirely on his personal leadership and the state's communication channels.

The BTI country report states that the way forward depends on the ability of the elites to establish dialogue and effective cooperation. Given the climate of mutual distrust, how is this possible?

As always, social, political and economic elites have a great responsibility to shape the country's destiny. In the case of Ecuador, the Constituent Assembly and the process headed by Correa presented an opportunity to end an era of economic crisis and political instability. However, this force, initially effective at undoing outdated institutions, has not been effective at building a replacement. President Correa can commit excesses because of the political vacuum. Rather than dialogue and agreement between elites, I believe we need reinforced democratic actors and an atmosphere of respect and acceptance of difference. Complete agreement between ruling sectors is neither possible nor desirable, but it is crucial that everyone recognizes a set of rules and procedures for processing these differences; this is the essence of democracy and it is endangered when political debate becomes litigious and power is exercised by reacting to electoral adversaries as enemies of the state and its interests.

 This summary is based on the Latin America and the Caribbean regional report by Peter Thiery, available at www.bti-project.org/lac

 Full reports for each country in the region available at www.bti-project.org/countryreports/lac

